

GAO

Report to the Chairman, Subcommittee  
on Oversight, Committee on Ways and  
Means, House of Representatives

May 1993

# TAX ADMINISTRATION

## Recurring Tax Issues Tracked by IRS' Office of Appeals



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**General Government Division**

B-253239

May 4, 1993

The Honorable J.J. Pickle  
Chairman, Subcommittee on Oversight  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

This report responds to your request for information on tax issues that continue year after year to require review by the Internal Revenue Service (IRS). You asked that we determine (1) the most prevalent issues appealed by taxpayers and (2) how often these issues have been appealed in the past.

On January 21, 1993, we briefed your office on the preliminary results of our analysis. At that time, we agreed to provide a descriptive analysis and listing of the issues occurring most often in IRS' National Appeals CENTAUR<sup>1</sup> Database. This report summarizes and expands on the information discussed at that meeting.

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**Results in Brief**

Each year, taxpayers dispute tax adjustments identified by IRS in audits. As of September 30, 1992, approximately 12,000 disputed issues in the CENTAUR database with \$99 billion in proposed income adjustments<sup>2</sup> were waiting to be resolved by the Office of Appeals. We found that 14 tax code sections account for about 45 percent—5,279—of those issues and 57 percent—\$56 billion—of the proposed adjustment amount. These 14 code sections involve issues that are being appealed by corporate and non-corporate taxpayers. We could not segregate the issues to determine how many were being appealed by corporations because this would have required an extensive case-by-case analysis of all 5,279 open issues. However, IRS states that the issues reflected in the database are predominantly corporate. The 14 code sections are:

- Section 162: Trade or business expense deductions
- Section 61: Gross income defined

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<sup>1</sup>The Combined Enhanced Nationwide Tracking and Uniform Report.

<sup>2</sup>Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

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- **Section 167: Depreciation**
  - **Section 482: Allocation of income and deductions among taxpayers (e.g., transfer pricing)**
  - **Section 461: Taxable year of deductions**
  - **Section 263: Capital expenditures**
  - **Section 166: Bad debts**
  - **Section 165: Deductions for losses**
  - **Section 2031: Definition of gross estate**
  - **Section 451: Taxable year of inclusion**
  - **Section 172: Net operating losses**
  - **Section 901: Taxes of foreign countries and U.S. possessions**
  - **Section 472: Last-in, first-out inventories**
  - **Section 311: Taxability of corporation on distribution**

Data also show that issues related to these 14 code sections accounted for an average of 44 percent of all issues resolved or closed by Appeals during fiscal years 1991 and 1992, 52 percent of the proposed adjustment amounts, and 59 percent of the proposed adjustment amounts sustained by Appeals.

Further, 53 subsections within these 14 code sections occur the most frequently or account for the highest dollar amount of proposed adjustments. Each of the 53 subsections accounts for 1 percent or more of the number of open issues and proposed adjustments for all 14 code sections. In addition, data on issues closed in fiscal years 1991 and 1992 show that the 53 subsections represented a significant number of the issues and proposed adjustment amounts.

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## Background

When tax adjustments are proposed in audits, taxpayers can respond by filing a protest and taking the dispute to IRS' Office of Appeals, the administrative body within IRS authorized to settle tax controversies. Appeals maintains an Issue Tracking System to follow the disposition of issues that are appealed when the amount of tax in dispute exceeds \$1 million.

Issues are recorded in the system by Internal Revenue Code (IRC) section and Uniform Issue List (UIL) number. The UIL is prepared annually by IRS' Office of Chief Counsel. It is an index of issues with descriptive phrases and unique eight-digit numbers that describe legal issues arising under the IRC. The first four digits represent the code section, the next two represent a major breakdown of the code, and the final two are a subbreakdown. Appeals officers are required to assign a UIL number to each issue recorded in the database.

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## Fourteen Tax Code Sections Are Most Often Appealed or Have the Highest Dollar Value

Of all the tax code sections, 14 account for almost half of the approximately 12,000 appealed issues that were tracked and awaiting resolution as of September 30, 1992. These sections, which are listed in tables 1 and 2, also account for 57 percent of the \$99 billion in proposed adjustments being disputed by corporations, partnerships, estates, and individuals. The 14 tax codes represent 5,279 of those issues and \$56 billion of the proposed adjustments. These 14 code sections were identified from Appeals' lists of top 10 code sections ordered by frequency of occurrence or proposed income adjustment amounts.

In the past 2 years, the 14 code sections have also accounted for almost half of the issues resolved or closed by Appeals. Our review of data on issues resolved or closed in fiscal years 1991 and 1992 shows that these 14 code sections accounted for an average of 44 percent—4,648—of the 10,557 issues resolved or closed in fiscal years 1991 and 1992. The 14 code sections also accounted for an average of 52 percent (\$34 billion) of the \$67 billion in proposed adjustments and 59 percent (\$13 billion) of the \$21 billion in proposed adjustments sustained by Appeals.

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## Fifty-three Subsections Account for Most of the Recurring Tax Code Issues

Our analysis of Appeals' data shows that a variety of subsections related to the 14 code sections are being appealed. We identified 53 subsections within the 14 code sections that were most frequently appealed or had the highest dollar amount of proposed adjustments. To identify the 53 subsections, we selected those UIL numbers and corresponding descriptive

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phrases that accounted for 1 percent or more of the total number of open issues (5,279) or the proposed adjustment amount (\$56 billion).

To show how often these subsections have recurred in the past, we analyzed data on issues closed in fiscal years 1991 and 1992. We found that the 53 subsections also represented a significant number of the issues and the proposed adjustment amounts for the 14 code sections. Appendix I contains open and closed data on the 53 subsections within the 14 code sections.

The data in appendix I show that some of the descriptive phrases that correspond to each subsection are general and may not provide enough detail to specifically identify the issues being appealed. When assigning UIL numbers, Appeals officers are asked to select the most descriptive phrase possible. They are instructed to first select the appropriate code section, then search through the major breakdown categories under the section for the next applicable code, and then search through the subbreakdowns to find a descriptive phrase that further defines the issue.

For most of the 14 code sections, the data show that only a general code section number was selected to describe a large number of the issues; for instance, codes like 162-00 for trade or business expense deductions. In fact, general code section numbers were selected to describe 920 of the 5,279 open issues and \$14 billion of the \$56 billion in proposed adjustments.

When major breakdown and subbreakdown categories are selected, a more detailed description is provided of the recurring issues being appealed, such as 167-14 for intangible assets, a recurring issue that we have previously studied and recommended legislative changes to resolve.<sup>3</sup>

More detailed information that expands on the UIL descriptive phrases is captured in the Appeals' database for each tracked issue. Appeals officers are allowed to enter unlimited information on each issue, including facts, notes, or key items to be considered in settling the issues. IRS officials said that some cases will have very descriptive information on each issue while others may not. Because analysis of this information would require a detailed case-by-case review, we did not obtain it for our report.

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<sup>3</sup>Tax Policy: Issues and Policy Proposals Regarding Tax Treatment of Intangible Assets (GAO/GGD-91-88, Aug. 9, 1991).

**Table 1: Number of Appealed Issues for Top Recurring Tax Code Sections**

Code section	Code title	Open issues	Closed issues	
		As of 9/30/92	FY 1991	FY 1992
Section 162	Trade or business deductions	1,137	500	557
Section 61	Gross income	1,016	416	467
Section 167	Depreciation	741	257	325
Section 482	Allocation of income and deductions among taxpayers (Transfer pricing)	352	175	177
Section 461	Taxable year of deduction	311	146	154
Section 263	Capital expenditures	295	82	101
Section 166	Bad debts	292	124	131
Section 165	Deductions for losses	292	178	166
Section 2031	Definition of gross estate	233	78	110
Section 451	Taxable year of inclusion	227	91	92
Section 172	Net operating loss	197	73	102
Section 901	Taxes of foreign countries and U.S. possessions	105	48	44
Section 472	Last-in, first-out inventories	60	29	20
Section 311	Taxability of corporation on distribution	21	2	3
<b>Total</b>		<b>5,279</b>	<b>2,199</b>	<b>2,449</b>
<b>Percent of all sections</b>		<b>45%</b>	<b>45%</b>	<b>43%</b>
<b>Total all sections</b>		<b>11,855</b>	<b>4,848</b>	<b>5,709</b>

Note: Section 482 data reported previously in testimony, International Taxation: Updated Information on Transfer Pricing (GAO/T-GGD-93-16, March 25, 1993) were provided by IRS and differ from the data that we computed from information in IRS' National Appeals CENTAUR database.

Source: IRS' National Appeals CENTAUR Database.

**Table 2: Proposed and Sustained Income Adjustments for Top 14 Recurring Tax Code Sections**

Dollars in millions

Code section	Open issues	Closed issues			
	Income adjustments proposed by Exams	Income adjustments proposed by Exams		Income adjustments sustained by Appeals	
	As of 9/30/92	FY 1991	FY 1992	FY 1991	FY 1992
Section 162	\$8,153	\$3,265	\$2,517	\$2,056	\$743
Section 61	3,893	3,466	3,784	1,495	1,664
Section 167	7,430	1,696	1,612	155	467
Section 482	14,088	1,966	2,383	499	468
Section 461	2,012	806	731	283	238
Section 263	2,500	798	579	55	161
Section 166	1,580	896	489	302	225
Section 165	1,291	2,474	1,055	1,056	274
Section 2031	2,679	543	386	286	110
Section 451	4,064	1,066	1,435	486	504
Section 172	1,270	1,336	704	894	77
Section 901	2,051	(479)	(21)	109	(20)
Section 472	2,259	50	244	38	74
Section 311	2,759	533	7	0	.3
<b>Total</b>	<b>\$56,029</b>	<b>\$18,416</b>	<b>\$15,905</b>	<b>\$7,714</b>	<b>\$4,985</b>
<b>Percent of all sections</b>	<b>57%</b>	<b>54%</b>	<b>50%</b>	<b>60%</b>	<b>58%</b>
<b>Total all sections</b>	<b>\$99,034</b>	<b>\$34,364</b>	<b>\$32,141</b>	<b>\$12,834</b>	<b>\$8,539</b>

Note 1: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Note 2: Section 482 data reported previously in testimony (GAO/T-GGD-93-16) were provided by IRS and differ from the data that we computed from information in IRS' National Appeals CENTAUR database.

Source: IRS' National Appeals CENTAUR database.

## Scope and Methodology

We obtained data from IRS' National Appeals CENTAUR database. The database does not contain all appealed issues. It tracks only the 5 largest issues in cases with disputed tax over \$1 million but less than \$10 million and the top 10 issues in cases where the proposed adjustment to tax is over \$10 million. It also tracks Appeals' Coordinated Issues and Industry

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Specialization Program issues.<sup>4</sup> Up until October 1992, the Appeals database tracked issues and proposed adjustments for a sample of small cases with disputed tax under \$1 million. The system tracked data on approximately 1 out of every 20 cases. According to IRS officials, data on the small cases capture a large number of the inventory of appealed issues but a small amount of the proposed income adjustments. We did not analyze these data for our report because IRS has done few cross-checks and could not provide assurances of its accuracy.

We analyzed unresolved or open issues in the database as of September 30, 1992, to determine the most prevalent issues appealed by taxpayers. We identified the 14 code sections from 2 lists of the top 10 code sections in appeals—1 list ordered by frequency of issues and another by proposed adjustment amounts. Six code sections appeared on both lists, 4 were only on the top 10 list by frequency of issues, and 4 were only on the list by proposed adjustment amounts.

To provide more detailed information on the most prevalent issues being appealed, we identified 53 subsections, within the 14 code sections that were most frequently appealed or had the highest dollar amount of proposed adjustments. We determined these 53 subsections by selecting UIL numbers that had a frequency or proposed adjustment amount of at least 1 percent or more of the total number of issues (5,279) or proposed adjustment amount (\$56 billion) for all 14 code sections. Therefore, we selected all subsections with a frequency of 53 or greater and those with proposed adjustment amounts of \$560 million or greater.

We also analyzed data on issues closed in fiscal years 1991 and 1992 to further substantiate the recurrence of the 14 code sections and 53 subsections, the proposed adjustment amounts from Examinations, and the income adjustment amounts sustained by Appeals.

We did our review between October 1992 and April 1993 in accordance with generally accepted government auditing standards. Our work was done at IRS' National Office.

We discussed the contents of this report with knowledgeable top Appeals and Chief Counsel officials, who agreed in general with its findings. We incorporated their comments where appropriate.

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<sup>4</sup>The Industry Specialization Program coordinates the examination of issues from 22 industries that warrant uniform treatment. Appeals Coordinated Issues are categories of cases or procedural questions of service-wide importance that need to be settled uniformly, such as defaulted savings and loan institutions.

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We are sending copies of this report to the Secretary of the Treasury, the Commissioner of IRS, and other interested parties.

Should you wish to discuss its contents, please call me on (202) 512-5407. Major contributors to this report are listed in appendix II.

Sincerely yours,

*Jennie S. Stathis*

Jennie S. Stathis  
Director, Tax Policy  
and Administration Issues



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**Abbreviations**

IRC	Internal Revenue Code
IRS	Internal Revenue Service
UIL	Uniform Issue List
CENTAUR	Combined Enhanced Nationwide Tracking and Uniform Report



# Top Recurring Issues

## Section 162: Trade or Business Expense Deductions

The IRC allows as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including (1) a reasonable allowance for salaries or other compensation for personal services actually rendered, (2) traveling expenses while away from home in the pursuit of a trade or business, (3) rentals or other payments required to be made as a condition to the continued use or possession of trade or business property to which the taxpayer does not have title or in which he has no equity.

**Table I.1: Unresolved (Open) Issues for Section 162 as of September 30, 1992**

Dollars in millions

Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 162		1,137	\$8,153
162-00	General code	176	982
162-07	Compensation	131	758
162-03	Proof of expenditures	105	107
162-03.01	Proof of expenditures, substantiation	67 <sup>a</sup>	78 <sup>a</sup>
162-04	Goods and services	98	1,818
162-04.02	Goods and services, insurance	37 <sup>a</sup>	1,172 <sup>a</sup>
162-04.03	Goods and services, capture insurance	34 <sup>a</sup>	566 <sup>a</sup>
162-01	Trade or business v. not trade or business	89	612
162-05	Certain business expenses	63	1,050
162-05.23	Certain business expenses, release from contract	3 <sup>a</sup>	931 <sup>a</sup>
162-25	Legal expenses	62	75
162-26	Capital v. expense	59	547
	All other subsections	354	2,204

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

<sup>a</sup>The numbers for these subcategories are already included in their respective major categories.

Source: IRS' National Appeals CENTAUR database.

**Appendix I**  
**Top Recurring Issues**

**Table I.2: Resolved (Closed) Issues for Section 162, Fiscal Years 1991 and 1992**

Dollars in millions				
Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 162	1991	500	\$3,265	\$2,056
	1992	557	2,517	743
162-00	1991	138	966	461
	1992	108	568	112
162-07	1991	46	107	26
	1992	58	127	32
162-03	1991	54	52	(2)
	1992	47	160	21
162-03.01	1991	42 <sup>a</sup>	41 <sup>a</sup>	(2) <sup>a</sup>
	1992	30 <sup>a</sup>	110 <sup>a</sup>	15 <sup>a</sup>
162-04	1991	40	307	159
	1992	33	281	91
162-04.02	1991	22 <sup>a</sup>	288 <sup>a</sup>	154 <sup>a</sup>
	1992	20 <sup>a</sup>	258 <sup>a</sup>	88 <sup>a</sup>
162-04.03	1991	5 <sup>a</sup>	8 <sup>a</sup>	.1 <sup>a</sup>
	1992	5 <sup>a</sup>	19 <sup>a</sup>	1 <sup>a</sup>
162-01	1991	46	337	379
	1992	34	119	6
162-05	1991	14	162	160
	1992	21	88	(12)
162-05.23	1991	1 <sup>a</sup>	91 <sup>a</sup>	91 <sup>a</sup>
	1992	none	none	none
162-25	1991	9	9	2
	1992	36	26	(7)
162-26	1991	25	273	187
	1992	33	248	107
All other subsections	1991	128	1,052	684
	1992	187	900	393

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

<sup>a</sup>The numbers for these subcategories are already included in their respective major categories.

Source: IRS' National Appeals CENTAUR database.

## Section 61: Gross Income Defined

Except as otherwise provided, gross income means all income from whatever source derived, including (but not limited to) the following items: (1) compensation for services, including fees, commissions, fringe benefits, and similar items; (2) gross income derived from business; (3) gains derived from dealings in property; (4) interest; (5) rents; (6) royalties; (7) dividends; (8) alimony and separate maintenance payments; (9) annuities; (10) income from life insurance and endowment contracts; (11) pensions; (12) income from discharge of indebtedness; (13) distributive share of partnership gross income; (14) income in respect of a decedent; and (15) income from an interest in an estate or trust.

Table I.3: Unresolved (Open) Issues for Section 61 as of September 30, 1992

Dollars in millions

Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 61		1,016	\$3,893
61-00	General code	232	873
61-35	Reported v. unreported income	97	270
61-37	Reconstruction of income	82	193
61-15	Interest	81	328
61-17	Dividends	62	132
61-09	Compensation for services	56	91
	All other subsections	406	2,006

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Appendix I  
Top Recurring Issues**

**Table I.4: Resolved (Closed) Issues for  
Section 61, Fiscal Years 1991 and 1992**

Dollars in millions

Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 61	1991	416	\$3,466	\$1,495
	1992	467	3,784	1,664
61-00	1991	138	653	164
	1992	99	1,189	123
61-35	1991	36	830	779
	1992	37	74	42
61-37	1991	38	103	14
	1992	45	194	62
61-15	1991	26	161	8
	1992	38	86	17
61-17	1991	23	79	32
	1992	29	53	13
61-09	1991	22	93	228
	1992	22	90	8
All other subsections	1991	133	1,547	270
	1992	197	2,098	1,399

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Section 167:  
Depreciation**

The IRC allows as a depreciation deduction a reasonable allowance for the exhaustion, wear, and tear (including a reasonable allowance for obsolescence) of property used in the trade or business or of property held for the production of income.

**Appendix I  
Top Recurring Issues**

**Table I.5: Unresolved (Open) Issues for  
Section 167 as of September 30, 1992**

Dollars in millions			
<b>Code section</b>	<b>Code and issue description</b>	<b>Number of issues</b>	<b>Proposed adjustments to income</b>
Section 167		741	\$7,430
167-14	Intangibles	330	2,064
167-07	Basis	84	631
167-00	General code	75	470
167-01	Property used in trade or business	32	1,532
167-05	Depreciation methods	17	577
167-05.05	Depreciation methods, change of method	5 <sup>a</sup>	572 <sup>a</sup>
167-19	Property placed in service	26	1,090
167-19.01	Property placed in service for power plants, utilities issue	8 <sup>a</sup>	955 <sup>a</sup>
	All other subsections	177	1,066

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

<sup>a</sup>The numbers for these subcategories are already included in their respective major categories.

Source: IRS' National Appeals CENTAUR database.

**Appendix I  
Top Recurring Issues**

**Table I.6: Resolved (Closed) Issues for Section 167, Fiscal Years 1991 and 1992**

Dollars in millions

Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 167	1991	257	\$1,696	\$155
	1992	325	1,612	467
167-14	1991	64	215	54
	1992	104	388	187
167-07	1991	33	569	79
	1992	41	285	78
167-00	1991	47	129	43
	1992	55	262	86
167-01	1991	11	302	5
	1992	13	50	(5)
167-05	1991	5	(26)	(30)
	1992	12	10	(11)
167-05.05	1991	none	none	none
	1992	3 <sup>a</sup>	4 <sup>a</sup>	.13 <sup>a</sup>
167-19	1991	6	6	5.5
	1992	7	271	.97
167-19.01	1991	none	none	none
	1992	4 <sup>a</sup>	259 <sup>a</sup>	0 <sup>a</sup>
All other subsections	1991	91	501	(2)
	1992	93	346	131

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

<sup>a</sup>The numbers for these subcategories are already included in their respective major categories.

Source: IRS' National Appeals CENTAUR database.

**Section 482:  
Allocation of Income  
and Deductions  
Among Taxpayers**

In any case of two or more organizations, trades, or businesses (whether or not incorporated, whether or not organized in the United States, and whether or not affiliated) owned or controlled directly or indirectly by the same interests, the Secretary of the Treasury may distribute, apportion, or allocate gross income, deductions, credits, or allowances between or among such organizations, trades, or businesses if he determines that such distribution, apportionment, or allocation is necessary in order to prevent evasion of taxes or clearly reflect the income of any such organizations, trades, or businesses.

**Appendix I  
Top Recurring Issues**

**Table I.7: Unresolved (Open) Issues for  
Section 482 as of September 30, 1992**

Dollars in millions

<b>Code section</b>	<b>Code and issue description</b>	<b>Number of Issues</b>	<b>Proposed adjustments to Income</b>
Section 482		352	\$14,088
482-03	Correlative adjustments	84	2,456
482-03.02	Correlative adjustments; intercompany pricing	24 <sup>a</sup>	1,143 <sup>a</sup>
482-00	General code	79	4,473
482-12	Sale of tangible property	27	3,869
482-12.01	Sale of tangible property; comparable uncontrolled price	4 <sup>a</sup>	1,578 <sup>a</sup>
482-01	Organization; trade or business	5	1,128
482-01.01 <sup>b</sup>	Organization; trade or business	1 <sup>a</sup>	1,119 <sup>a</sup>
	All other subsections	157	2,162

Note 1: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Note 2: Data reported previously in testimony on transfer pricing (GAO/T-GGD-93-16) were provided by IRS and differ from the data that we computed from information in IRS' National Appeals CENTAUR database.

<sup>a</sup>The numbers for these subcategories are already included in their respective major categories.

<sup>b</sup>A descriptive phrase associated with this number was not found in the Uniform Issues List.

Source: IRS' National Appeals CENTAUR database.

**Appendix I  
Top Recurring Issues**

**Table I.8: Resolved (Closed) Issues for Section 482, Fiscal Years 1991 and 1992**

Dollars in millions

Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 482	1991	175	\$1,966	\$499
	1992	177	2,383	468
482-03	1991	37	629	170
	1992	45	430	63
482-03.02	1991	8 <sup>a</sup>	153 <sup>a</sup>	30 <sup>a</sup>
	1992	10 <sup>a</sup>	219 <sup>a</sup>	32 <sup>a</sup>
482-00	1991	66	850	174
	1992	38	852	230
482-12	1991	7	65	10
	1992	12	80	4
482-12.01	1991	1 <sup>a</sup>	4 <sup>a</sup>	4 <sup>a</sup>
	1992	3 <sup>a</sup>	36 <sup>a</sup>	1 <sup>a</sup>
482-01	1991	3	8	.6
	1992	4	24	6
482-01.01 <sup>b</sup>	1991	none	none	none
	1992	2 <sup>a</sup>	16 <sup>a</sup>	3 <sup>a</sup>
All other subsections	1991	62	414	144
	1992	78	997	165

Note 1: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Note 2: Data reported previously in testimony on transfer pricing (GAO/T-GGD-93-16) were provided by IRS and differ from the data that we computed from information in IRS' National Appeals CENTAUR database.

<sup>a</sup>The numbers for these subcategories are already included in their respective major categories.

<sup>b</sup>A descriptive phrase associated with this number was not found in the Uniform Issues List.

Source: IRS' National Appeals CENTAUR database.

**Section 461: General Rule for Taxable Year of Deduction**

The IRC requires that the amount of any deduction or credit allowed by this section shall be taken for the taxable year which is the proper taxable year under the method of accounting used in computing taxable income.

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Top Recurring Issues**

**Table I.9: Unresolved (Open) Issues for Section 461 as of September 30, 1992**

Dollars in millions

Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 461		311	\$2,012
461-01	Accrual method	125	716
461-00	General code	53	376
	All other subsections	133	920

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Table I.10: Resolved (Closed) Issues for Section 461, Fiscal Years 1991 and 1992**

Dollars in millions

Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 461	1991	146	\$806	\$283
	1992	154	731	238
461-01	1991	44	274	94
	1992	50	253	129
461-00	1991	35	247	84
	1992	32	106	40
All other subsections	1991	67	285	105
	1992	72	372	69

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

## Section 263: Capital Expenditures

The IRC does not allow the deduction of any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate. This does not apply to several expenditures that are allowed under sections 174, 175, 179, 180, 190, 193, and 616.

**Appendix I  
Top Recurring Issues**

**Table I.11: Unresolved (Open) Issues  
for Section 263 as of September 30,  
1992**

Dollars in millions

Code section	Code and Issue description	Number of issues	Proposed adjustments to income
Section 263		295	\$2,500
263-00	General code	57	1,439
	All other subsections	238	1,061

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Table I.12: Resolved (Closed) Issues  
for Section 263, Fiscal Years 1991 and  
1992**

Dollars in millions

Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 263	1991	82	\$798	\$55
	1992	101	579	161
263-00	1991	27	386	17
	1992	39	155	71
All other subsections	1991	55	412	38
	1992	62	424	90

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

## Section 166: Bad Debts

For wholly worthless debts, the IRC allows a deduction for any that become worthless within the taxable year. When satisfied that a debt is recoverable only in part (i.e., partially worthless debts), the Secretary may allow such debt, in an amount not in excess of the part charged off within the taxable year, as a deduction.

**Appendix I  
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**Table I.13: Unresolved (Open) Issues for Section 166 as of September 30, 1992**

Dollars in millions

Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 166		292	\$1,580
166-00	General code	98	488
166-06	Other	84	568
	All other subsections	110	524

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Table I.14: Resolved (Closed) Issues for Section 166, Fiscal Years 1991 and 1992**

Dollars in millions

Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 166	1991	124	\$896	\$302
	1992	131	489	225
166-00	1991	49	636	208
	1992	38	328	169
166-06	1991	28	186	47
	1992	34	46	33
All other subsections	1991	47	74	47
	1992	59	115	23

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Section 165:  
Deduction for Losses**

The IRC allows as a deduction, with some limitations, any loss sustained during the taxable year and not compensated for by insurance or otherwise.

**Appendix I  
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**Table I.15: Unresolved (Open) Issues for Section 165 as of September 30, 1992**

Dollars in millions			
Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 165		292	\$1,291
165-00	General code	91	(59)
165-11	Other	67	508
	All other subsections	134	842

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Table I.16: Resolved (Closed) Issues for Section 165, Fiscal Years 1991 and 1992**

Dollars in millions				
Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 165	1991	178	\$2,474	\$1,056
	1992	166	1,055	274
165-00	1991	74	1,784	620
	1992	45	381	148
165-11	1991	28	131	37
	1992	28	62	9
All other subsections	1991	76	559	399
	1992	93	612	117

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Section 2031:  
Definition of Gross  
Estate**

The value of the gross estate of the decedent shall be determined by including, to the extent provided for in this part, the value at the time of his death of all property, real or personal, tangible or intangible, wherever situated.

**Appendix I  
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**Table I.17: Unresolved (Open) Issues for Section 2031 as of September 30, 1992**

Dollars in millions			
Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 2031		233	\$2,679
2031-03	Valuation of stocks and bonds where no market exists	63	199
2031-06	Valuation of real estate	60	360
2031-00	General code	21	1,655
	All other subsections	89	465

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Table I.18: Resolved (Closed) Issues for Section 2031, Fiscal Years 1991 and 1992**

Dollars in millions				
Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 2031	1991	78	\$543	\$286
	1992	110	386	110
2031-03	1991	14	41	3
	1992	28	154	25
2031-06	1991	20	330	208
	1992	33	51	16
2031-00	1991	17	36	46
	1992	14	99	58
All other subsections	1991	27	136	29
	1992	35	82	11

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Section 451: General Rule for Taxable Year of Inclusion**

The amount of any item of gross income shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under the method of accounting used in computing taxable income, such amount is to be properly accounted for as of a different period.

**Appendix I  
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**Table I.19: Unresolved (Open) Issues for Section 451 as of September 30, 1992**

Dollars in millions			
Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 451		227	\$4,064
451-16	Long-term contracts	53	890
451-29	Aerospace issues; long-term contract method	23	1,715
451-29.04	Aerospace issue; long-term contract method, multiple orders for separate contracts	2 <sup>a</sup>	915 <sup>a</sup>
	All other subsections	151	1,459

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

<sup>a</sup>The numbers for these subcategories are already included in their respective major categories.

Source: IRS' National Appeals CENTAUR database.

**Table I.20: Resolved (Closed) Issues for Section 451, Fiscal Years 1991 and 1992**

Dollars in millions				
Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 451	1991	91	\$1,066	\$486
	1992	92	1,435	504
451-16	1991	7	221	79
	1992	28	624	392
451-29	1991	2	16	23
	1992	2	44	7
451-29.04	1991	none	none	none
	1992	1 <sup>a</sup>	16 <sup>a</sup>	0 <sup>a</sup>
All other subsections	1991	82	829	384
	1992	62	767	105

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

<sup>a</sup>The numbers for these subcategories are already included in their respective major categories.

Source: IRS' National Appeals CENTAUR database.

## Section 172: Net Operating Loss Deduction

The IRC allows as a deduction for the taxable year an amount equal to the aggregate of (1) the net operating loss carryovers to such year, plus (2) the net operating loss carrybacks to such year.

**Table I.21: Unresolved (Open) Issues for Section 172 as of September 30, 1992**

Dollars in millions

Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 172		197	\$1,270
172-01	Carryback and carryover	85	607
	All other subsections	112	663

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Table I.22: Resolved (Closed) Issues for Section 172, Fiscal Years 1991 and 1992**

Dollars in millions

Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 172	1991	73	\$1,336	\$894
	1992	102	704	77
172-01	1991	30	627	268
	1992	38	229	77
All other subsections	1991	43	709	626
	1992	64	475	0

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

## Section 901: Taxes of Foreign Countries and of Possessions of the United States (Foreign Tax Credit)

The IRC allows a taxpayer that chooses the benefits of this section to be credited with the amount of any income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or to any possession of the United States. In the case of a corporation, the taxpayer is also credited with the taxes deemed to have been paid under sections 902 and 960.

**Appendix I  
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**Table I.23: Unresolved (Open) Issues for Section 901 as of September 30, 1992**

Dollars in millions

Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 901		105	\$2,051
901-00	General code	36	2,876
901-08	Taxes used to provide subsidies	12	(1,201)
	All other subsections	57	376

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Table I.24: Resolved (Closed) Issues for Section 901, Fiscal Years 1991 and 1992**

Dollars in millions

Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 901	1991	48	\$(479)	\$109
	1992	44	(21)	(20)
901-00	1991	21	(143)	46
	1992	9	4	3
901-08	1991	5	0	0
	1992	3	0	0
All other subsections	1991	22	(336)	63
	1992	32	(25)	(23)

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

## Section 472: Last-In, First-Out Inventories

The IRC requires that in inventorying goods in the application of this section, a taxpayer shall treat goods remaining on hand at the close of the taxable year as being first, first meaning those included in the opening inventory of the taxable year (in the order of acquisition) and second, those acquired in the taxable year. The taxpayer shall also inventory the goods at cost, treat those included in the opening inventory of the taxable year in which such method is first used as having been acquired at the same time and determine their cost by the average cost method.

**Appendix I  
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**Table I.25: Unresolved (Open) Issues  
for Section 472 as of September 30,  
1992**

Dollars in millions			
Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 472		60	\$2,259
472-08	Dollar value method	18	1,539
472-08.02	Dollar value method, definition of an item	3 <sup>a</sup>	1,023 <sup>a</sup>
	All other subsections	42	720

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

<sup>a</sup>The numbers for these subcategories are already included in their respective major categories.

Source: IRS' National Appeals CENTAUR database.

**Table I.26: Resolved (Closed) Issues  
for Section 472, Fiscal Years 1991 and  
1992**

Dollars in millions				
Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 472	1991	29	\$50	\$38
	1992	20	244	74
472-08	1991	8	(6)	9
	1992	4	3	.64
472-08.02	1991	none	none	none
	1992	none	none	none
All other subsections	1991	21	56	29
	1992	16	241	73.36

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Section 311: Taxability  
of Corporation on  
Distribution**

No gain or loss shall be recognized to a corporation on the distribution of its stock (or rights to acquire its stock) or property, with some exceptions.

**Appendix I  
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**Table I.27: Unresolved (Open) Issues for Section 311 as of September 30, 1992**

Dollars in millions			
Code section	Code and issue description	Number of issues	Proposed adjustments to income
Section 311		21	\$2,759
311-01	With respect to stock	4	1,833
311-00	General code	2	684
	All other subsections	15	242

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

**Table I.28: Resolved (Closed) Issues for Section 311, Fiscal Years 1991 and 1992**

Dollars in millions				
Code section	Fiscal year	Number of issues	Proposed adjustment to income	Appeals revised adjustment
Section 311	1991	2	\$533	\$0
	1992	3	7	.3
311-01	1991	1	533	0
	1992	none	none	none
311-00	1991	1	.0023	0
	1992	1	3	0
All other subsections	1991	0	0	0
	1992	2	4	.3

Note: Proposed adjustment amounts are net adjustments (i.e., positive adjustments minus negative adjustments). The amounts also exclude tax credits and penalties.

Source: IRS' National Appeals CENTAUR database.

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